

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Rockwood, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# City of Rockwood, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rockwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockwood, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockwood, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 17, 2007

# City of Rockwood, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Rockwood, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$3,800 this year.
- Property taxes are the City's single, largest source of revenue. Property tax revenue for general operations increased by approximately \$30,000 in the current year despite holding the operating millage at 16.0, which is less than the amount legally available to levy. The majority of the increase was due to inflationary increases in taxable value and some modest tax base growth.
- District Court revenue decreased by approximately \$86,000 in the current year.
- The project for the development of Patricia Lezotte-Quick River Walk Park has been put on hold until other grant funds become available. Under the original agreement with Wayne County, the City was responsible for securing more than \$900,000 of additional grants; however, currently the County has agreed not to hold the City responsible for the additional grants.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Rockwood, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
<b>Assets</b>						
Current assets	\$ 2,083,287	\$ 2,238,432	\$ 742,695	\$ 735,369	\$ 2,825,982	\$ 2,973,801
Noncurrent assets	<u>5,642,738</u>	<u>5,487,363</u>	<u>4,781,734</u>	<u>4,588,318</u>	<u>10,424,472</u>	<u>10,075,681</u>
Total assets	7,726,025	7,725,795	5,524,429	5,323,687	13,250,454	13,049,482
<b>Liabilities</b>						
Current liabilities	421,462	478,230	175,756	211,279	597,218	689,509
Long-term liabilities	<u>3,454,939</u>	<u>3,322,878</u>	<u>1,933,697</u>	<u>1,860,557</u>	<u>5,388,636</u>	<u>5,183,435</u>
Total liabilities	<u>3,876,401</u>	<u>3,801,108</u>	<u>2,109,453</u>	<u>2,071,836</u>	<u>5,985,854</u>	<u>5,872,944</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	2,145,859	2,095,482	2,801,734	2,668,318	4,947,593	4,763,800
Restricted	974,660	960,351	-	50,791	974,660	1,011,142
Unrestricted	<u>729,105</u>	<u>868,854</u>	<u>613,242</u>	<u>532,742</u>	<u>1,342,347</u>	<u>1,401,596</u>
Total net assets	<u>\$ 3,849,624</u>	<u>\$ 3,924,687</u>	<u>\$ 3,414,976</u>	<u>\$ 3,251,851</u>	<u>\$ 7,264,600</u>	<u>\$ 7,176,538</u>

The City has combined net assets of over \$7.18 million. Business-type activities comprise approximately \$3.25 million of the total net assets. In the current year, the City's total net assets decreased by approximately \$88,000.

# City of Rockwood, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the fiscal years ended June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 697,051	\$ 618,860	\$ 972,431	\$ 801,605	\$ 1,669,482	\$ 1,420,465
Operating grants and contributions	213,708	179,416	-	-	213,708	179,416
Capital grants and contributions	60,049	-	-	-	60,049	-
General revenue:						
Property taxes	1,828,172	1,887,799	127,209	133,562	1,955,381	2,021,361
State-shared revenue	340,306	336,446	-	-	340,306	336,446
Unrestricted investment earnings	78,212	118,370	27,690	20,985	105,902	139,355
Other	57,498	114,177	-	-	57,498	114,177
Total revenue	3,274,996	3,255,068	1,127,330	956,152	4,402,326	4,211,220
<b>Program Expenses</b>						
General government	1,281,597	1,210,631	-	-	1,281,597	1,210,631
Public safety	1,112,400	1,270,675	-	-	1,112,400	1,270,675
Public works	275,185	378,206	-	-	275,185	378,206
Recreation and culture	185,844	184,085	-	-	185,844	184,085
Interest on long-term debt	166,344	136,408	89,589	89,589	255,933	225,997
Water and sewer	-	-	1,138,628	1,029,688	1,138,628	1,029,688
Total program expenses	3,021,370	3,180,005	1,228,217	1,119,277	4,249,587	4,299,282
<b>Change in Net Assets</b>	<b>\$ 253,626</b>	<b>\$ 75,063</b>	<b>\$ (100,887)</b>	<b>\$ (163,125)</b>	<b>\$ 152,739</b>	<b>\$ (88,062)</b>

### Governmental Activities

The City's total governmental revenues decreased by approximately \$20,000. The decrease was primarily due to decreases in charges for services from court fines and fees revenue, state-shared revenue, and grants and contributions. The decreases were offset by an increase in investment earnings due to a rise in interest rates.

During the year, expenses increased by approximately \$158,000. The increases were primarily due to increases in general public safety expenses and street repairs recorded in public works expense.



# **City of Rockwood, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Wastewater Treatment Fund and the Water and Sewer Fund. The City provides water to residents from the Detroit water system. The City provides sewage treatment through a City-owned and operated sewage treatment plant. During the year, the City decreased the sewage charge from the Wastewater Treatment Fund to the Water and Sewer Fund. This change accounts for a majority of the decrease in both program revenue - charges for service and program expenses. As in the prior year, the City had an operating loss in the Water and Sewer Fund. The wastewater treatment plant also had an operating loss. These losses were essentially due to depreciation expenses, which is a noncash cost. The Wastewater Treatment and Water and Sewer Funds' revenues were less than that of the prior year. To the extent revenues exceed the respective funds' cash basis operating expenses, this modest amount of excess revenue is relied upon to provide for major repairs of the systems as well as system replacement and improvements.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, Major Roads Fund, Local Roads Fund, Commerce Park Fund, and the City Hall Construction Fund.

The General Fund pays for most of the City's governmental services.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the General Fund budget to take into account events during the year. The most significant changes were increases in the estimated hospitalization, building activity, and police activity expenses of approximately \$13,500, \$15,500, and \$20,000, respectively. These amendments were the result of unanticipated expenditures incurred by the City. Overall, most of the City departments stayed within budgeted expenditures. The General Fund's fund balance increased from \$743,867 a year ago, to \$879,983.

### **Capital Asset and Debt Administration**

At the end of 2007, the City had approximately \$10,075,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, vehicles, water and sewer lines, and infrastructure.

The City continues to collect property tax revenues from specific millages to pay for the sanitary sewer debt, fire equipment debt, and the City Hall building debt.

# **City of Rockwood, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year calls for a freeze on property tax rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the rate of inflation, or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

Currently, the City's management is undergoing an effort to change the City's master plan to allow for growth within Commerce Park and other specific areas through the modification of existing zoning restrictions. Subsequent to year end, \$25,000 has been earmarked in the Commerce Park Fund related to these efforts.

The City anticipates that the water rates will have to increase somewhat in the current year to address inflation and the increase in the City of Detroit wholesale water rate charged to the City. The City staff is in the process of evaluating the amount of increase that will be needed and will likely have a public hearing before the end of calendar year 2007 to discuss the need for such an increase.

In the area of development, plans have been approved for the construction of a Rite-Aid pharmacy in the center of downtown and the City continues to look for ways to revitalize the industrial park.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# City of Rockwood, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 2,140,644	\$ 576,922	\$ 2,717,566	\$ 43,953
Property taxes - Delinquent	17,873	594	18,467	-
Accounts receivable - Customer billings	-	134,930	134,930	-
Other receivables	5,694	1,500	7,194	-
Interfund balances (Note 6)	19,674	(19,674)	-	-
Due from other governmental units	30,192	-	30,192	-
Inventories	-	41,097	41,097	-
Other assets	24,355	-	24,355	-
Capital assets - Net (Note 5)	5,487,363	4,588,318	10,075,681	-
Total assets	7,725,795	5,323,687	13,049,482	43,953
<b>Liabilities</b>				
Accounts payable and other accruals	139,959	122,304	262,263	-
Deposits	85,307	18,975	104,282	-
Deferred revenue (Note 4)	37,216	-	37,216	-
Compensated absences (Note 7):				
Due within one year	15,000	-	15,000	-
Due in more than one year	131,745	10,557	142,302	-
Long-term debt (Note 7):				
Due within one year	200,748	70,000	270,748	-
Due in more than one year	3,191,133	1,850,000	5,041,133	-
Total liabilities	3,801,108	2,071,836	5,872,944	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,095,482	2,668,318	4,763,800	-
Restricted:				
Streets and highways	737,786	-	737,786	-
Debt service	210,812	-	210,812	-
Drug forfeiture	11,753	-	11,753	-
Capital improvements	-	50,791	50,791	-
Unrestricted	868,854	532,742	1,401,596	43,953
Total net assets	<u>\$ 3,924,687</u>	<u>\$ 3,251,851</u>	<u>\$ 7,176,538</u>	<u>\$ 43,953</u>

# City of Rockwood, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,210,631	\$ 158,440	\$ 1,411	\$ -
Public safety	1,270,675	422,513	-	-
Public works	378,206	-	176,319	-
Recreation and culture	184,085	37,907	1,686	-
Interest on long-term debt	136,408	-	-	-
Total governmental activities	3,180,005	618,860	179,416	-
Business-type activities:				
Wastewater treatment	286,327	209,281	-	-
Water and sewer	832,950	592,324	-	-
Total business-type activities	1,119,277	801,605	-	-
Total primary government	<u>\$ 4,299,282</u>	<u>\$ 1,420,465</u>	<u>\$ 179,416</u>	<u>\$ -</u>
Component unit - Tax increment financing authority	<u>\$ 12,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:  
Property taxes  
State-shared revenues  
Unrestricted investment earnings  
Gain on disposal of capital assets  
Miscellaneous

Total general revenues

## Change in Net Assets

**Net Assets** - July 1, 2006

**Net Assets** - June 30, 2007

**Statement of Activities**  
**Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,050,780)	\$ -	\$ (1,050,780)	\$ -
(848,162)	-	(848,162)	-
(201,887)	-	(201,887)	-
(144,492)	-	(144,492)	-
(136,408)	-	(136,408)	-
(2,381,729)	-	(2,381,729)	-
-	(77,046)	(77,046)	-
-	(240,626)	(240,626)	-
-	(317,672)	(317,672)	-
(2,381,729)	(317,672)	(2,699,401)	-
-	-	-	(12,778)
1,887,799	133,562	2,021,361	-
336,446	-	336,446	-
118,370	20,985	139,355	1,289
119	-	119	-
114,058	-	114,058	-
2,456,792	154,547	2,611,339	1,289
75,063	(163,125)	(88,062)	(11,489)
3,849,624	3,414,976	7,264,600	55,442
<u>\$ 3,924,687</u>	<u>\$ 3,251,851</u>	<u>\$ 7,176,538</u>	<u>\$ 43,953</u>

# City of Rockwood, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	Major Special Revenue Funds				Debt Service Fund			
				Commerce	City Hall	Other Nonmajor	Total	
	General Fund	Major Roads	Local Roads	Park	Construction	Governmental Funds	Governmental Funds	
<b>Assets</b>								
Cash and cash equivalents	\$ 1,006,271	\$ 665,708	\$ 64,612	\$ 143,866	\$ 209,708	\$ 50,479	\$ 2,140,644	
Property taxes - Delinquent	16,547	-	-	-	1,326	-	17,873	
Other receivables	3,170	-	2,524	-	-	-	5,694	
Due from other governmental units	-	19,748	9,033	-	-	1,411	30,192	
Due from other funds	46,608	1,337	9,874	-	-	-	57,819	
Other assets	24,355	-	-	-	-	-	24,355	
Total assets	<b>\$ 1,096,951</b>	<b>\$ 686,793</b>	<b>\$ 86,043</b>	<b>\$ 143,866</b>	<b>\$ 211,034</b>	<b>\$ 51,890</b>	<b>\$ 2,276,577</b>	
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable and other accruals	\$ 132,761	\$ -	\$ -	\$ 3,884	\$ 222	\$ 3,092	\$ 139,959	
Due to other funds	-	18,626	16,424	-	-	3,095	38,145	
Deposits	84,207	-	-	-	-	1,100	85,307	
Deferred revenue	-	-	-	-	-	37,216	37,216	
Total liabilities	216,968	18,626	16,424	3,884	222	44,503	300,627	
<b>Fund Balances</b>								
Reserved for debt service	-	-	-	-	210,812	-	210,812	
Unreserved:								
Designated - Reported in General Fund (Note 11)	530,144	-	-	-	-	-	530,144	
Undesignated - Reported in:								
General Fund	349,839	-	-	-	-	-	349,839	
Special Revenue Funds	-	668,167	69,619	139,982	-	7,387	885,155	
Total fund balances	879,983	668,167	69,619	139,982	210,812	7,387	1,975,950	
Total liabilities and fund balances	<b>\$ 1,096,951</b>	<b>\$ 686,793</b>	<b>\$ 86,043</b>	<b>\$ 143,866</b>	<b>\$ 211,034</b>	<b>\$ 51,890</b>	<b>\$ 2,276,577</b>	
<b>Total Fund Balances for Governmental Funds</b>							\$ 1,975,950	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and are not reported in the funds								5,487,363
Long-term liabilities are not due and payable in the current period and are not reported in the funds								(3,538,626)
<b>Net Assets of Governmental Activities</b>							<b>\$ 3,924,687</b>	

# City of Rockwood, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Special Revenue Funds				Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Roads	Local Roads	Commerce Park	City Hall Construction		
<b>Revenue</b>							
Property taxes	\$ 1,576,704	\$ -	\$ -	\$ -	\$ 295,696	\$ -	\$ 1,872,400
Licenses and permits	40,756	-	-	-	-	-	40,756
Federal sources	-	-	-	-	-	1,411	1,411
State sources	337,729	121,697	54,622	-	-	-	514,048
District Court	366,451	-	-	-	-	-	366,451
Interest and rentals	70,726	30,794	2,325	5,401	9,051	73	118,370
Other	286,465	1,337	-	-	-	43,931	331,733
Total revenue	2,678,831	153,828	56,947	5,401	304,747	45,415	3,245,169
<b>Expenditures</b>							
Current:							
General government	994,119	-	-	-	-	-	994,119
Public safety	934,565	-	-	-	-	26,464	961,029
District Court	225,493	-	-	-	-	-	225,493
DPW	137,867	-	-	-	-	-	137,867
Public works, street lighting, and rubbish collection	227,366	138,443	75,888	4,964	-	-	446,661
Community center	-	-	-	-	-	63,336	63,336
Recreation and culture	47,293	-	-	-	-	1,411	48,704
Other expenditures	2,665	-	-	-	499	-	3,164
Debt service	25,184	-	-	-	301,571	-	326,755
Total expenditures	2,594,552	138,443	75,888	4,964	302,070	91,211	3,207,128
<b>Excess of Revenue Over (Under) Expenditures</b>	84,279	15,385	(18,941)	437	2,677	(45,796)	38,041
<b>Other Financing Sources (Uses)</b>							
Transfers in	-	-	60,849	-	-	33,512	94,361
Transfers out	(33,512)	(60,849)	-	-	-	-	(94,361)
Proceeds from issuance of debt	85,349	-	-	-	-	-	85,349
Total other financing sources (uses)	51,837	(60,849)	60,849	-	-	33,512	85,349
<b>Net Change in Fund Balances</b>	136,116	(45,464)	41,908	437	2,677	(12,284)	123,390
<b>Fund Balances - July 1, 2006</b>	743,867	713,631	27,711	139,545	208,135	19,671	1,852,560
<b>Fund Balances - June 30, 2007</b>	<u>\$ 879,983</u>	<u>\$ 668,167</u>	<u>\$ 69,619</u>	<u>\$ 139,982</u>	<u>\$ 210,812</u>	<u>\$ 7,387</u>	<u>\$ 1,975,950</u>

# City of Rockwood, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

**Net Change in Fund Balances - Total Governmental Funds** \$ 123,390

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	145,406
Depreciation expense	(298,740)

Proceeds from the sale of capital assets are revenue in the governmental funds, but not in the statement of activity (where the gain or loss on the sale is recorded)	(2,041)
---	---------

Repayment of bond principal and installment debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	190,347
--	---------

Debt proceeds are not reported as financing sources on the statement of activities	(85,349)
--	----------

Decrease in accumulated employee sick and vacation pay	<u>2,050</u>
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**Change in Net Assets of Governmental Activities** \$ 75,063



# City of Rockwood, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 187,971	\$ 388,951	\$ 576,922
Accounts receivable - Customer billings	134,930	-	134,930
Property taxes - Delinquent	594	-	594
Due from other funds	-	58,704	58,704
Other receivables	-	1,500	1,500
Inventories	41,097	-	41,097
Total current assets	364,592	449,155	813,747
Noncurrent assets - Capital assets	3,144,255	1,444,063	4,588,318
Total assets	3,508,847	1,893,218	5,402,065
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and other accruals	49,855	72,449	122,304
Due to other funds	78,378	-	78,378
Deposits	18,975	-	18,975
Current portion of long-term debt	70,000	-	70,000
Total current liabilities	217,208	72,449	289,657
Noncurrent liabilities:			
Long-term portion of compensated absences	10,557	-	10,557
Long-term debt - Net of current portion	1,850,000	-	1,850,000
Total noncurrent liabilities	1,860,557	-	1,860,557
Total liabilities	2,077,765	72,449	2,150,214
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	1,224,255	1,444,063	2,668,318
Restricted for capital improvements	50,791	-	50,791
Unrestricted	156,036	376,706	532,742
Total net assets	<u>\$ 1,431,082</u>	<u>\$ 1,820,769</u>	<u>\$ 3,251,851</u>

# City of Rockwood, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Operating Revenue</b>			
Sale of water	\$ 275,398	\$ -	\$ 275,398
Sale of sewer services	298,392	-	298,392
Sewage disposal charges	-	209,281	209,281
Customer interest and penalty charges	12,034	-	12,034
Total operating revenue	585,824	209,281	795,105
<b>Operating Expenses</b>			
Cost of water purchased	177,854	-	177,854
Cost of sewage treatment	209,281	-	209,281
Plant management charges	-	192,254	192,254
Salaries and fringe benefits	90,877	-	90,877
Professional services	30,303	4,910	35,213
Office administration expenses	5,511	-	5,511
Supplies, maintenance, and other	26,979	36,789	63,768
Utilities	6,594	-	6,594
Miscellaneous	6,268	16,660	22,928
Depreciation	195,030	35,714	230,744
Total operating expenses	748,697	286,327	1,035,024
<b>Operating Loss</b>	(162,873)	(77,046)	(239,919)
<b>Nonoperating Income (Expense)</b>			
Property taxes	133,562	-	133,562
Interest income	2,109	18,876	20,985
Interest expense	(84,253)	-	(84,253)
Tap-in fees	6,500	-	6,500
Total nonoperating income	57,918	18,876	76,794
<b>Change in Net Assets</b>	(104,955)	(58,170)	(163,125)
<b>Net Assets - July 1, 2006</b>	1,536,037	1,878,939	3,414,976
<b>Net Assets - June 30, 2007</b>	<u>\$ 1,431,082</u>	<u>\$ 1,820,769</u>	<u>\$ 3,251,851</u>

# City of Rockwood, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Enterprise Funds		
	Water and Sewer	Wastewater Treatment	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 584,747	\$ -	\$ 584,747
Payments to suppliers	(241,946)	(239,793)	(481,739)
Payments to employees	(90,877)	-	(90,877)
Internal activity - Payments to/from other funds	(237,432)	233,633	(3,799)
Net cash provided by (used in) operating activities	14,492	(6,160)	8,332
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal payments on long-term debt	(60,000)	-	(60,000)
Collection of property taxes for debt service	133,562	-	133,562
Interest paid on bonds	(84,253)	-	(84,253)
Tap-in fees	6,500	-	6,500
Purchase of capital assets	(1,229)	(36,099)	(37,328)
Net cash used in capital and related financing activities	(5,420)	(36,099)	(41,519)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	2,109	18,876	20,985
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	11,181	(23,383)	(12,202)
<b>Cash and Cash Equivalents</b> - July 1, 2006	176,790	412,334	589,124
<b>Cash and Cash Equivalents</b> - June 30, 2007	<u>\$ 187,971</u>	<u>\$ 388,951</u>	<u>\$ 576,922</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (162,873)	\$ (77,046)	\$ (239,919)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	195,030	35,714	230,744
Changes in assets and liabilities:			
Accounts receivable - Customer billings	(5,509)	-	(5,509)
Property taxes - Delinquent	4,432	-	4,432
Due from other funds	-	24,352	24,352
Accounts payable and other accruals	10,563	10,820	21,383
Due to other funds	(28,151)	-	(28,151)
Deposits	1,000	-	1,000
Net cash provided by (used in) operating activities	<u>\$ 14,492</u>	<u>\$ (6,160)</u>	<u>\$ 8,332</u>

# City of Rockwood, Michigan

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## **Fiduciary Fund Statement of Assets and Liabilities June 30, 2007**

	<u>Agency Fund</u>
<b>Assets</b> - Cash and cash equivalents	<u><u>\$ 191</u></u>
<b>Liabilities</b> - Due to other governmental units	<u><u>\$ 191</u></u>

# City of Rockwood, Michigan

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## Component Units Statement of Net Assets June 30, 2007

	TIFA	Economic Development Corporation	Total
<b>Assets - Cash and cash equivalents</b>	<b><u>\$ 41,987</u></b>	<b><u>\$ 1,966</u></b>	<b><u>\$ 43,953</u></b>
<b>Net Assets - Unrestricted</b>	<b><u>\$ 41,987</u></b>	<b><u>\$ 1,966</u></b>	<b><u>\$ 43,953</u></b>

# City of Rockwood, Michigan

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		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>			
Tax Increment Finance Authority (TIFA) -				
General government	\$ 12,778	\$ -	\$ -	\$ -
Economic Development Corporation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u><b>\$ 12,778</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

**General Revenues - Interest**

**Change in Net Assets**

**Net Assets - July 1, 2006**

**Net Assets - June 30, 2007**

**Component Units  
Statement of Activities  
Year Ended June 30, 2007**

Net (Expense) Revenue and Changes in Net Assets		
Economic		
Development		
TIFA	Corporation	Total
\$ (12,778)	\$ -	\$ (12,778)
-	-	-
(12,778)	-	(12,778)
1,289	-	1,289
(11,489)	-	(11,489)
53,476	1,966	55,442
<b>\$ 41,987</b>	<b>\$ 1,966</b>	<b>\$ 43,953</b>

# **City of Rockwood, Michigan**

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## **Notes to Financial Statements June 30, 2007**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Rockwood, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rockwood, Michigan:

#### **Reporting Entity**

The City of Rockwood, Michigan is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for descriptions).

#### **Discretely Presented Component Units**

##### **Tax Increment Finance Authority (TIFA)**

The Tax Increment Finance Authority (TIFA) was created to encourage development within a certain district of the City. The TIFA's governing body, which consists of eight individuals, is appointed by the mayor and approved by the City Council. In addition, the TIFA's budget is subject to approval by the City Council. During the year ended June 30, 2005, a resolution was passed by the City Council rendering the TIFA legally inactive and, as such, it did not capture taxes in the current year and will not capture taxes in the future.

##### **Economic Development Corporation (EDC)**

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. There was no activity in the EDC in the current year.

#### **The Rockwood Housing Commission**

The Rockwood Housing Commission has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Commission under the guidelines of Governmental Accounting Standards Board Statement No. 14 (GASB No. 14). This entity is subject to separate audit requirements.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Jointly Governed Organization**

The City is a participant in a jointly governed organization as discussed in Note I3.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Major Roads Fund** - The Major Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes and interest on investments.

**Local Roads Fund** - The Local Roads Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds, and interest on investments.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Commerce Park Fund** - The Commerce Park Fund's purpose is to maintain and improve City-owned land in Commerce Park for eventual sale.

**City Hall Construction Fund** - The City Hall Construction Fund was used to account for construction and purchase of capital assets for the City Hall complex. Currently, the fund collects property taxes and pays the debt service on the outstanding City Hall bonds.

The City reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the activities of the water distribution system and sewage collection system. The fund is financed primarily by a user charge for the provided service.

**Wastewater Treatment Fund** - The Wastewater Treatment Fund is used to account for the activities of the wastewater treatment plant operated by the City.

Additionally, the City reports the following fund types:

**Agency Fund** - The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governmental units, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of result of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund recognizes tap charges as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Property Taxes** - Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 and December 1 of the following year. These taxes are due on August 31 and February 28, respectively, with the final collection date of February 28 before they are added to the county tax rolls. The City budgets and recognizes all revenue in the fiscal year ending on each June 30 relating to the tax bills issued on the preceding July 1 and December 1, since the proceeds of the tax levy are then available for financing operations.

The 2006 taxable valuation of the City approximated \$94.4 million (a portion of which is abated) on which taxes levied consisted of 16 mills for operating purposes, 1.4 mills for sanitary sewer debt service, 3.1 mills for City Hall building debt service, and 0.3 mills for fire equipment debt service. This resulted in approximately \$1,500,000 for operating, \$133,000 for sanitary sewer debt service, \$290,000 for City Hall building debt service, and \$26,000 for fire equipment debt service. These amounts are recognized in the respective General, Water and Sewer, and City Hall Construction Funds financial statements as tax revenue.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, infrastructure, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure - Roads and sidewalks	10 to 25 years
Infrastructure - Bridges	50 years
Water and sewer distribution systems and components	10 to 50 years
Water and sewer treatment facilities	10 to 39 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture	5 years
Equipment	5 to 15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. When material, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first Council meeting in May of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one week in advance thereof by the clerk.
3. The Council shall, on or before the first Council meeting in June of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated.

During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

- Debt proceeds have been netted against the related expenditures rather than being shown as other financing sources.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Funds as adopted by the City Council is included in the required supplemental information section. No budget was adopted for the Community Development Block Grant Fund. A comparison of the actual results of operations to the Nonmajor Special Revenue Funds' budgets as adopted by the City Council are available at the clerk's office for inspection.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance with Amended Budget
<b>General Fund</b> - Administration and general government:			
Inspections	\$ 28,000	\$ 32,378	\$ (4,378)
DPW	192,800	201,951	(9,151)
Street lighting and rubbish collection	221,316	227,366	(6,050)
Recreation	73,012	80,805	(7,793)
<b>Major Roads Fund</b>			
Public works	95,000	138,443	(43,443)
Transfer to other fund	35,000	60,849	(25,849)
<b>Commerce Park Fund</b> - Other expenses	3,000	4,964	(1,964)

**Fund Deficits** - The City has an accumulated fund deficit in the Community Center Fund. The deficit will be eliminated through transfers from the General Fund.



# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2006		\$ (29,500)
Current year building permit revenue		36,680
Related expenses:		
Direct costs	\$ 32,378	
Estimated indirect costs	<u>22,500</u>	
Total construction code expenses		<u>54,878</u>
Cumulative shortfall at June 30, 2007		<u><u>\$ (47,698)</u></u>

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority. The Tax Increment Finance Authority also follows the City policies.

### **Note 3 - Deposits (Continued)**

The City's cash and investments are subject to custodial credit risk of bank deposits, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$2,282,788 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

All of the City's component units' bank deposits were insured at June 30, 2007.

### **Note 4 - Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue of \$37,216 has been recorded for federal grant payments received in the form of program income prior to meeting all eligibility requirements for future disbursement.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 187,805	\$ -	\$ -	\$ 187,805
Construction in progress	149,011	-	-	149,011
Capital assets being depreciated:				
Buildings and improvements	4,899,287	-	-	4,899,287
Furniture	670,849	-	-	670,849
Equipment and vehicles	2,274,479	145,406	20,406	2,399,479
Infrastructure	331,814	-	-	331,814
Subtotal	8,176,429	145,406	20,406	8,301,429
Accumulated depreciation:				
Buildings and improvements	970,766	112,413	-	1,083,179
Furniture	495,970	24,849	-	520,819
Equipment and vehicles	1,174,720	144,245	18,365	1,300,600
Infrastructure	229,051	17,233	-	246,284
Subtotal	2,870,507	298,740	18,365	3,150,882
Net capital assets being depreciated	5,305,922	(153,334)	2,041	5,150,547
Net capital assets	<u>\$ 5,642,738</u>	<u>\$ (153,334)</u>	<u>\$ 2,041</u>	<u>\$ 5,487,363</u>
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Water and sewer distribution and treatment systems	\$ 7,589,514	\$ 37,328	\$ -	\$ 7,626,842
Buildings and building improvements	616,709	-	-	616,709
Equipment	348,853	-	-	348,853
Subtotal	8,555,076	37,328	-	8,592,404
Accumulated depreciation	3,773,342	230,744	-	4,004,086
Net capital assets	<u>\$ 4,781,734</u>	<u>\$ (193,416)</u>	<u>\$ -</u>	<u>\$ 4,588,318</u>

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 50,245
Public safety	127,622
Recreation and culture	52,367
Public works	<u>68,506</u>

Total governmental activities	<u>\$ 298,740</u>
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Business-type activities:

Water and sewer	\$ 195,030
Wastewater treatment	<u>35,714</u>

Total business-type activities	<u>\$ 230,744</u>
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### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Water and Sewer Fund	\$ 19,674
	Other nonmajor governmental funds	3,095
	Major Roads Fund	8,752
	Local Roads Fund	<u>15,087</u>
	Total General Fund	46,608
Major Roads Fund	Local Roads Fund	1,337
Local Roads Fund	Major Roads Fund	<u>9,874</u>
	Total governmental funds	57,819
Wastewater Treatment Fund	Water and Sewer Fund	<u>58,704</u>
	Total interfund receivables	<u>\$ 116,523</u>

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other nonmajor governmental fund - Community Center Fund	\$ 33,512
Major Roads Fund	Local Roads Fund	<u>60,849</u>
	Total interfund transfers	<u>\$ 94,361</u>

The transfers from the General Fund to the other nonmajor governmental fund represent the use of unrestricted resources to finance community center programs, in accordance with budgetary authorizations; the transfer from the Major Roads Fund to the Local Roads Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Balance July 1, 2006	Additions (Reductions)	Balance June 30, 2007	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds -						
Unlimited tax bonds series 1999:						
Amount of issue: \$4,000,000	4.50% -	\$165,000 -				
Maturing through May 2019	4.625%	\$345,000	\$ 3,320,000	\$ (150,000)	\$ 3,170,000	\$ 165,000
Installment purchase agreements:						
Fire truck agreement:						
Amount of issue: \$179,158						
Maturing through May 2015	4.45%	\$17,916	161,242	(17,916)	143,326	17,916
2007 Ford F-750 lease:						
Amount of issue: \$85,349		\$10,014 -				
Maturing through June 2013	6.50%	\$13,720	-	70,737	70,737	10,014
Ford Explorer lease:						
Amount of issue: \$23,456						
Maturing through January 2008	6.20%	\$7,819	15,637	(7,819)	7,818	7,818
Total long-term debt			3,496,879	(104,998)	3,391,881	200,748
Compensated absences	N/A	N/A	148,795	(2,050)	146,745	15,000
Total governmental activities			\$ 3,645,674	\$ (107,048)	\$ 3,538,626	\$ 215,748
<b>Business-type Activities</b>						
General obligation bonds -						
Unlimited tax sanitary sewer bonds series 1998:						
Amount of issue: \$2,250,000	3.85% -	\$70,000 -				
Maturing through May 2022	4.50%	\$165,000	\$ 1,980,000	\$ (60,000)	\$ 1,920,000	\$ 70,000
Compensated absences	N/A	N/A	13,697	(3,140)	10,557	-
Total business-type activities			\$ 1,993,697	\$ (63,140)	\$ 1,930,557	\$ 70,000

Annual debt service requirements to maturity for the above bonds and installment obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 200,749	\$ 155,498	\$ 356,247	\$ 70,000	\$ 81,642	\$ 151,642
2009	213,581	146,624	360,205	75,000	78,912	153,912
2010	229,274	136,809	366,083	85,000	75,912	160,912
2011	250,013	126,273	376,286	95,000	72,512	167,512
2012	270,799	114,790	385,589	105,000	68,712	173,712
2013-2017	1,547,465	374,346	1,921,811	675,000	269,010	944,010
2018-2022	680,000	47,406	727,406	815,000	109,652	924,652
Total	\$ 3,391,881	\$ 1,101,746	\$ 4,493,627	\$ 1,920,000	\$ 756,352	\$ 2,676,352

### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to real and personal property and general liability. The City also participates in the Michigan Municipal League Workers' Compensation Fund for workers' compensation claims, and purchases commercial insurance for medical claims. Settled claims relating to insured risks have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 9 - Defined Benefit Pension Plan**

#### **Plan Description**

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City who work at least 20 hours per week and five months per year. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

#### **Funding Policy**

The funding policy provides for employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due. No contribution is required from the employees. The obligation to contribute to and maintain the system was established by resolution of the City Council.

# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$62,437 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions include (a) an interest rate of 8.0 percent, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases. Although no specific price inflation is needed for this valuation, the 4.5 percent wage inflation assumption would be consistent with a price inflation of 3 percent to 4 percent. The actuarial value of assets was determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10 percent per year. The unfunded actuarial liability is being amortized as a level percentage of payroll based on the assumption that payroll increases 4.5 percent per year. The remaining amortization period is 29 years.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 62,437	\$ 98,513	\$ 76,849
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Note 10 - Wastewater Treatment Plant Fund

During the year ended June 30, 1983, the City entered into an agreement with Wayne County to lease a wastewater treatment plant from the county for a period of 99 years for a cost of \$1. The estimated fair market value of the plant at the time of acquisition was recorded as an asset in the Wastewater Treatment Plant Fund and all subsequent additions and major repairs to the plant have been capitalized.



# City of Rockwood, Michigan

## Notes to Financial Statements June 30, 2007

### Note 10 - Wastewater Treatment Plant Fund (Continued)

The City has an operation and maintenance agreement with an engineering firm to provide all routine operation and maintenance services for the treatment plant through June 2006. The agreement was renewed through June 2006. The monthly fee associated with these services at June 30, 2007 was \$16,014. This fee is subject to review each January and may be adjusted by a mutually acceptable cost of living index. Additional services that are not considered routine are billed separately to the City.

### Note 11 - Designated Fund Balance

Fund balance of the General Fund has been designated for the following purposes:

Deferred compensation (police compensation and vacation time)	\$ 20,000
ETSC training funds	2,521
ACT 48	25,070
Accumulated sick days	101,940
Recreation	7,591
City administration and maintenance equipment	2,146
Police training	2,876
Future retirement health care	300,000
Retirement benefits	58,000
Railroad donation (City projects)	10,000
Total	<u>\$ 530,144</u>

### Note 12 - Other Postemployment Benefits

The City provides health care benefits to all employees upon retirement. Currently, six retirees are eligible. The City includes retirees and their spouses in its insured health care plan with some contribution required by the participants, depending on years of service. Expenses for postemployment health care benefits are recognized as the insurance premiums become due and totaled \$72,432 during the year ended June 30, 2007.

### **Note 12 - Other Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the City's year ending June 30, 2009.

### **Note 13 - Joint Venture**

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and other neighboring communities. The City appoints one member to this joint venture's governing board who then approves the annual budget. The District Court receives its operating revenue principally through contributions from member communities. During the current year, the City received approximately \$165,000 from the District Court, representing the City's share of the District Court's net activity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, other than the fluctuation of case loads, which impacts the governments' share of the District Court debt. Complete financial statements are available through the City offices.

## **Required Supplemental Information**

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# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 1,525,576	\$ 1,525,576	\$ 1,534,660	\$ 9,084
Tax penalty	6,500	4,300	9,926	5,626
Tax administration fees	27,000	30,800	32,118	1,318
Total property taxes	1,559,076	1,560,676	1,576,704	16,028
<b>State Sources</b>				
Revenue-sharing	342,212	342,212	336,446	(5,766)
Liquor license fees and other	1,200	1,200	1,283	83
Total state sources	343,412	343,412	337,729	(5,683)
<b>Licenses and Permits</b>	22,000	42,000	40,756	(1,244)
<b>District Court</b>	440,000	375,000	366,451	(8,549)
<b>Interest and Rental Revenue</b>	30,000	67,000	70,726	3,726
<b>Intragovernmental Revenue - Reimbursements -</b>				
Roads and water and sewer	120,000	165,797	185,655	19,858
<b>Other Revenue</b>				
Weed cutting	6,000	6,000	8,800	2,800
PILOT (senior citizen building)	9,000	10,000	10,275	275
Franchise fees	63,000	78,000	75,429	(2,571)
Park usage and donation	500	500	3,791	3,291
Miscellaneous income	2,500	2,500	33,243	30,743
Police training	2,800	2,800	1,847	(953)
Refuse disposal	108,000	108,000	107,601	(399)
Ambulance service	28,000	43,000	45,479	2,479
Total other revenue	219,800	250,800	286,465	35,665
Total revenue	2,734,288	2,804,685	2,864,486	59,801

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b><u>Expenses</u></b>				
<b>Administration and General Government</b>				
Legislative	\$ 39,200	\$ 39,200	\$ 38,200	\$ 1,000
Executive and legal	42,100	42,100	41,798	302
Board of Review	600	600	600	-
Elections	9,000	9,000	4,882	4,118
Assessor	14,000	14,000	9,438	4,562
Clerk	250,985	259,985	242,909	17,076
General services	594,478	595,863	573,503	22,360
Inspections	18,000	28,000	32,378	(4,378)
Treasurer	7,340	7,340	5,688	1,652
Building	68,300	83,800	80,945	2,855
Total administration and general government	1,044,003	1,079,888	1,030,341	49,547
<b>Public Safety</b>				
Police	860,489	880,489	847,683	32,806
Fire	96,380	96,380	86,882	9,498
Total public safety	956,869	976,869	934,565	42,304
<b>District Court</b>	228,000	228,000	225,493	2,507
<b>DPW</b>	183,800	192,800	201,951	(9,151)
<b>Street Lighting and Rubbish Collection</b>	221,316	221,316	227,366	(6,050)
<b>Recreation</b>	73,012	73,012	80,805	(7,793)
<b>Other</b>	27,288	32,800	27,849	4,951
Total expenses	2,734,288	2,804,685	2,728,370	76,315
<b>Excess of Revenue Over Expenses</b>	-	-	136,116	<b><u>\$ 136,116</u></b>
<b>Fund Balance - July 1, 2006</b>	743,867	743,867	743,867	
<b>Fund Balance - June 30, 2007</b>	<b><u>\$ 743,867</u></b>	<b><u>\$ 743,867</u></b>	<b><u>\$ 879,983</u></b>	

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2007

### Major Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 120,000	\$ 120,000	\$ 121,697	\$ 1,697
Other income	-	-	1,337	1,337
Interest income	10,000	10,000	30,794	20,794
Total revenue	130,000	130,000	153,828	23,828
<b>Expenses</b>				
Public works	95,000	95,000	138,443	(43,443)
Transfer to other fund	35,000	35,000	60,849	(25,849)
Total expenses	130,000	130,000	199,292	(69,292)
<b>Excess of Expenses Over Revenue</b>	-	-	(45,464)	<b><u>\$ (45,464)</u></b>
<b>Fund Balance - July 1, 2006</b>	<u>713,631</u>	<u>713,631</u>	<u>713,631</u>	
<b>Fund Balance - June 30, 2007</b>	<b><u>\$ 713,631</u></b>	<b><u>\$ 713,631</u></b>	<b><u>\$ 668,167</u></b>	

### Local Roads Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared revenue	\$ 50,000	\$ 50,000	\$ 54,622	\$ 4,622
Interest income	200	200	2,325	2,125
Transfer from other fund	35,000	35,000	60,849	25,849
Total revenue	85,200	85,200	117,796	32,596
<b>Expenses - Public works</b>	<u>85,200</u>	<u>85,200</u>	<u>75,888</u>	<u>9,312</u>
<b>Excess of Revenue Over Expenses</b>	-	-	41,908	<b><u>\$ 41,908</u></b>
<b>Fund Balance - July 1, 2006</b>	<u>27,711</u>	<u>27,711</u>	<u>27,711</u>	
<b>Fund Balance - June 30, 2007</b>	<b><u>\$ 27,711</u></b>	<b><u>\$ 27,711</u></b>	<b><u>\$ 69,619</u></b>	

# City of Rockwood, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

### Commerce Park Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b> - Interest income	\$ 3,000	\$ 3,000	\$ 5,401	\$ 2,401
<b>Expenses</b> - Other expenses	<u>3,000</u>	<u>3,000</u>	<u>4,964</u>	<u>(1,964)</u>
<b>Excess of Revenue Over Expenses</b>	-	-	437	<u>\$ 437</u>
<b>Fund Balance</b> - July 1, 2006	<u>139,545</u>	<u>139,545</u>	<u>139,545</u>	
<b>Fund Balance</b> - June 30, 2007	<u>\$ 139,545</u>	<u>\$ 139,545</u>	<u>\$ 139,982</u>	

# City of Rockwood, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date (Year Beginning January 1)*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	UAAL as a Percentage of Valuation Payroll
2001	\$ 980,216	\$ 980,216	-	100.0	\$ 608,189	-
2002	1,240,834	1,240,834	-	100.0	590,594	-
2003	1,378,006	1,378,006	-	100.0	564,454	-
2004	1,406,516	1,406,516	-	100.0	533,508	-
2005	1,472,431	1,472,431	-	100.0	714,853	-
2006	1,526,534	1,496,164	(30,370)	102.0	843,358	(3.6)

\* On July 1, 2006, the City's retirement plan changed from Principal Mutual Life Insurance Company to the Michigan Municipal Employees' Retirement System. Prior to July 1, 2006, the actuarial valuation date was the year beginning April 1.

The schedule of employer contributions is as follows:

Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
2002	04/01/01	\$ 69,190	100.0
2003	04/01/02	55,898	100.0
2004	04/01/03	94,075	100.0
2005	04/01/04	76,849	100.0
2006	04/01/05	98,513	100.0
2007	12/31/05	62,437	100.0

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percentage of payroll
Remaining amortization period (perpetual)	29 years
Asset valuation method	Smoothing technique over a 10-year period
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% to 12.9% depending on individual employee's age
	3% to 4%
*Includes inflation at	None
Cost of living adjustments	



## **Other Supplemental Information**

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# City of Rockwood, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Drug Forfeiture	Community Center	Community Development Block Grant	
<b>Assets</b>				
Cash and investments (overdraft)	\$ 11,753	\$ (174)	\$ 38,900	\$ 50,479
Due from other governmental units	-	-	1,411	1,411
Total assets	<u>\$ 11,753</u>	<u>\$ (174)</u>	<u>\$ 40,311</u>	<u>\$ 51,890</u>
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 3,092	\$ -	\$ 3,092
Due to other funds	-	-	3,095	3,095
Deposits	-	1,100	-	1,100
Deferred revenue	-	-	37,216	37,216
Total liabilities	-	4,192	40,311	44,503
<b>Fund Balances (Deficit) - Undesignated</b>	<u>11,753</u>	<u>(4,366)</u>	<u>-</u>	<u>7,387</u>
Total liabilities and fund balances (deficit)	<u>\$ 11,753</u>	<u>\$ (174)</u>	<u>\$ 40,311</u>	<u>\$ 51,890</u>

# City of Rockwood, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds			Total
	Drug Forfeiture	Community Center	Community Development Block Grant	Nonmajor Governmental Funds
<b>Revenue</b>				
Federal sources	\$ -	\$ -	\$ 1,411	\$ 1,411
Interest income	16	57	-	73
Other	13,018	30,913	-	43,931
Total revenue	13,034	30,970	1,411	45,415
<b>Expenditures - Current</b>				
Recreation and culture	-	-	1,411	1,411
Public safety	26,464	-	-	26,464
Community center	-	63,336	-	63,336
Total expenditures	26,464	63,336	1,411	91,211
<b>Excess of Expenditures Over Revenue</b>	(13,430)	(32,366)	-	(45,796)
<b>Other Financing Sources - Transfer in</b>	-	33,512	-	33,512
<b>Net Change in Fund Balances (Deficit)</b>	(13,430)	1,146	-	(12,284)
<b>Fund Balances (Deficit) - July 1, 2005</b>	25,183	(5,512)	-	19,671
<b>Fund Balances (Deficit) - June 30, 2006</b>	<u>\$ 11,753</u>	<u>\$ (4,366)</u>	<u>\$ -</u>	<u>\$ 7,387</u>

August 17, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Rockwood  
32409 Fort Street  
Rockwood, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Rockwood, Michigan (the "City") for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your consideration:

### **State-shared Revenue**

The future of the State's revenue-sharing program is closely tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (state fiscal years 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changing Michigan Business Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan business tax. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. The City continues to receive approximately \$75,000 less in total revenue than it did in 2002. Approximately \$97,000 of the remaining amount is statutory revenue sharing that is at risk.

### **Property Assessment Cap**

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result, despite general operating charter mills of 20, currently the Headlee limited mills are 16.7725 (a reduction of over 15 percent).

### **Property Tax Legislation**

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent, until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

### **Retiree Health Care Benefits and GASB No. 45**

As discussed in last year’s letter, the Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City’s fiscal year ending June 30, 2009.

Currently, the City has funds designated within the General Fund fund balance related to beginning to fund this liability. In the current year, postemployment health benefits amounted to just over \$72,000. We would encourage the City to establish a separate Special Revenue Fund under PA ACT 149 of 1999. This would allow for the investment of the designated funds in accordance with the Pension Act and allow for the potential of a greater return on the related investments.

## **Water and Sewer Fund**

**Inventory** - The Water and Sewer Fund had inventory totaling \$40,597 at June 30, 2007 (general inventory and meters). The account balance has not changed in over two years and a physical inventory of these items was not performed at year end. We would suggest performing a physical inventory and adjusting the general ledger balance if necessary.

**Water Loss** - Based on information provided during our audit, it was noted that the City experienced a water loss of 20 percent when comparing units billed by the City to units purchased. As it is common to experience a water loss due to the age and condition of water lines providing water from the City of Detroit, the City should monitor this loss.

## **Reconciling Activities**

During our testing, we again noted instances of a lack of reconciliation between the subsidiary ledger details and the general ledger for the performance bonds. While the discrepancies noted were not material to the City's financial statements, we would suggest that timely, recurring reconciliations be performed related to these items.

## **Act 51**

**Surplus Transfer** - Public Act 51 has been modified to allow local governments to transfer monies from their Major Roads Fund to their Local Roads Fund if an excess exists. As a condition of the transfer, the amended law requires that certain conditions be met, including the adoption of an asset management process for the major and local roads systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Roads Fund to the Local Roads Fund can only be done to the extent that local revenues exist in the Major Roads Fund. There is also currently legislation proposed that would allow for the combination of the Major Roads Fund and the Local Roads Fund if certain conditions are met.

**Annual Transfer** - Currently, the City only transfers 50 percent of the Act 51 funds received from the State by the Major Roads Fund on an annual basis to the Local Roads Fund. If additional funds are needed in the Local Roads Fund, additional amounts up to 100 percent of the Major Roads Act 51 revenue may be transferred from the Major Roads Fund. In order to transfer more than 50 percent of the funds, the City would need to adopt a resolution with a copy to the Michigan Department of Transportation setting forth all of the following:

- a) A list of the major streets in the City
- b) A statement that the City is adequately maintaining its major streets
- c) The dollar amount of the transfer
- d) The local streets to be funded with the transfer

**Nonmotorized Improvements** - Given the City's current involvement with nonmotorized improvements and roadside parks, we would like to remind the City of the following set of facts related to opportunities to apply Act 51 monies toward these types of projects. There are no annual limits on the amount of Act 51 funds that can be applied to nonmotorized improvements as defined under Act 51. However, the City is required to have cumulative expenditures for nonmotorized improvements exceeding 10 percent of Act 51 annual receipts over the past 10 years. Related to spending on roadside parks, a limitation of 5 percent of annual receipts is required. In addition, it is not possible to apply costs retroactively from prior periods.

**Significant Deficiencies and Material Weaknesses under Statements on Auditing Standards No. 112**

New auditing rules, effective December 31, 2006, have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the supervisor and the board members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.



A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. This qualifies as a material weakness in internal controls. It should be noted that a number of these journal entries were related to transactions that were unusual and infrequent in nature. The entries also include those required for the full-accrual presentation of the government-wide statements.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**Plante & Moran, PLLC**



Blake M. Roe



William E. Brickey